

REPORT OF THE AUDITOR-GENERAL TO THE KWAZULU-NATAL PROVINCIAL LEGISLATURE AND COUNCIL ON UPHONGOLO MUNICIPALITY

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the financial statements of the uPhongolo Municipality set out on pages ... to ..., which comprise, the statement of financial position as at 30 June 2014, the statement of financial performance, statement of changes in net assets, the cash flow statement and the statement of comparison of budget information with actual information for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Local Government: Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003)(MFMA) and the Division of Revenue Act of South Africa, 2013 (Act No. 2 of 2013)(DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-General's responsibility

3. My responsibility is to express an opinion on the financial statements based on my audit. I conducted my audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the general notice issued in terms thereof and International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the municipality's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

6. In my opinion, the financial statements present fairly, in all material respects, the financial position of the uPhongolo Municipality as at 30 June 2014, and its financial performance and cash flows for the year then ended in accordance with the SA Standards of GRAP and the requirements of the MFMA and DoRA.

Emphasis of matters

7. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Material losses

8. As disclosed in note 31 to the financial statements, material electricity losses to the amount of R2,25 million (11%) was incurred as a result of distribution losses.

Going concern

9. Note 65 to the financial statements indicates that at 30 June 2014 the municipality's current liabilities of R25,87 million exceeded its cash resources of R13,60 million by R12,27 million. The condition highlights the fact that the municipality was not in a position to meet its current obligations as they fall due. This indicates the existence of a material uncertainty that may cast significant doubt on the municipality's ability to operate as a going concern.

Additional matters

10. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Unaudited supplementary schedules

11. The supplementary information set out on pages xx to xx do not form part of the financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion thereon.

Unaudited disclosure notes

12. In terms of section 125(2)(e) of the MFMA, the municipality is required to disclose particulars of non-compliance with the MFMA. This disclosure requirement did not form part of the audit of the financial statements and accordingly I do not express an opinion thereon.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

13. In accordance with the PAA and the general notice issued in terms thereof, I report the following findings on the reported performance information against predetermined objectives for selected objectives presented in the annual performance report, non-compliance with legislation as well as internal control. The objective of my tests was to identify reportable findings as described under each subheading but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.

Predetermined objectives

14. I performed procedures to obtain evidence about the usefulness and reliability of the reported

performance information for the following selected objectives presented in the annual performance report of the municipality for the year ended 30 June 2014:

- Objective NKPA 2: Basic service delivery on pages x to x
- Objective NKPA 3: Local economic development on pages x to x

15. I evaluated the reported performance information against the overall criteria of usefulness and reliability.
16. I evaluated the usefulness of the reported performance information to determine whether it was presented in accordance with the National Treasury's annual reporting principles and whether the reported performance was consistent with the planned programmes. I further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's *Framework for managing programme performance information* (FMPPI).
17. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
18. The material findings in respect of the selected programmes are as follows:

Basic service delivery

Usefulness of information

Measurability

Performance targets are not measurable

19. The FMPPI requires that performance targets be measurable. The required performance could not be measured for a total of 39% of the targets. Management was aware of the requirements of the FMPPI but chose not to apply the principles contained therein.

Performance indicators not well defined

20. The FMPPI requires that indicators should have clear unambiguous data definitions so that data is collected consistently and is easy to understand and use. A total of 89% were not well defined in that clear, unambiguous data definitions were not available to allow for data to be collected consistently. Management was aware of the requirements of the FMPPI but chose not to apply the principles contained therein.

Reliability of information

Reported performance not reliable

21. The FMPPI requires that institutions should have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets. The information presented with respect to the basic service delivery and infrastructure objectives was not reliable when compared to the source information and evidence provided. This was due to the lack of standard operating procedures for the accurate recording, monitoring and reporting of actual achievements.

Local economic development

Usefulness of information

Measurability

Performance targets are not measurable

22. The FMPPI requires that performance targets be measurable. The required performance could not be measured for a total of 25% of the targets. Management was aware of the requirements of the FMPPI but chose not to apply the principles contained therein.

Performance indicators not well defined

23. The FMPPI requires that indicators should have clear unambiguous data definitions so that data is collected consistently and is easy to understand and use. A total of 20% were not well defined in that clear, unambiguous data definitions were not available to allow for data to be collected consistently. Management was aware of the requirements of the FMPPI but chose not to apply the principles contained therein.

Reliability of information

Reported performance not reliable

24. The FMPPI requires that institutions should have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets. The information presented with respect to the local economic development objectives was not reliable when compared to the source information and evidence provided. This was due to the lack of standard operating procedures for the accurate recording, monitoring and reporting of actual achievements.

Additional matter

25. I draw attention to the following matter:

Achievement of planned targets

26. Refer to the annual performance report on pages xx to xx for information on the achievement of planned targets for the year. This information should be considered in the context of the material findings on usefulness and reliability of the reported performance information for the selected programme reported in paragraphs 19 to 24 of this report.

Compliance with legislation

27. I performed procedures to obtain evidence that the municipality has complied with applicable laws and regulations regarding financial matters, financial management and other related matters. My findings on material non-compliance with specific matters in key applicable laws and regulations as set out in the general notice issued in terms of the PAA are as follows:

Expenditure management

- 28. Reasonable steps were not taken to prevent irregular expenditure, as required by section 62(1)(d) of the MFMA.
- 29. Money owing by the municipality was not always paid within 30 days or an agreed period, as required by section 65(2)(e) of the MFMA.

Annual financial statements

- 30. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements of non-current assets, current assets, liabilities, revenue, and expenditure items identified by the auditors in the submitted financial statements were subsequently corrected, resulting in the financial statements receiving a unqualified audit opinion.

Asset management

- 31. An effective system of internal control for assets was not in place, as required by section 63(2)(c) of the MFMA.
- 32. Capital assets were sold without evidence of the approval of council, as required by section 14(2)(a) of the MFMA and Municipal asset transfer regulation 5.

Human resource management

- 33. An approved staff establishment was not in place, as required by section 66(1)(a) of the Local Government: Municipal Systems Act, 2000 (Act No. 32 of 2000)(MSA).
- 34. The acting supply chain management manager was appointed for a period of more than six months in contravention of section 56(1)(c) of the MSA.

Procurement and Contract management

- 35. Sufficient appropriate audit evidence could not be obtained that goods and services with a transaction value of below R200 000 were procured by means of obtaining the required price quotations, as required by Supply chain management (SCM) regulations 17(a) and (c).
- 36. Bid adjudication was not always done by committees which were composed in accordance with SCM regulation 29(2).

Internal control

- 37. I considered internal control relevant to my audit of the financial statements, name of performance report and compliance with laws and regulations. The matters reported below under the fundamentals of internal control are limited to the significant deficiencies that resulted in the basis for qualified opinion, the findings on the performance report and the findings on compliance with laws and regulations included in this report.

Leadership

38. Oversight processes were not adequate to ensure compliance with SCM processes due to vacancies in key posts in the finance and SCM sections. Furthermore, consultants were appointed to perform the Value Added Tax reconciliations and returns as management did not have adequate skills and sufficient knowledge of key legislative requirements.

Financial and performance management

39. The accounting officer did not implement adequate monitoring and evaluation processes to ensure that all requirements of laws and regulations are complied with timeously. Furthermore, due to inadequate monitoring, performance and financial related non-compliances were not identified timeously to implement corrective measures, as was evidenced by the material corrections required to the financial statements and weaknesses in the reported performance information.

OTHER REPORTS

Investigations

40. The corporate services management at the municipality are currently performing five investigations covering the 2013/14 financial year. Four of these cases are SCM and/or procurement related, whilst other one relates to the illegal issuing of drivers licences. Two of the cases are at a stage where criminal cases are being opened with the South African Police Services and the other three are still awaiting finalisation of disciplinary hearings.

Pietermaritzburg

28 November 2014



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence